

Message Text

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PAGE 01 TEL AV 08417 151628Z
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03
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C O N F I D E N T I A L TEL AVIV 8417

E.O. 11652: GDS
TAGS: EFIN, IS
SUBJECT: FY 1977 BUDGET

REF: TEL AVIV 8140

1. BUDGET DIRECTOR SHIRAN HAS GIVEN ECON COUNSELOR A STATUS REPORT ON FY 1977 DRAFT BUDGET AND NEGOTIATIONS WITH HISTADRUT ON A WAGE/PRICE PACKAGE. HE WAS IN A PESSIMISTIC FRAME OF MIND. AN AGREEMENT ON WAGES, HE SAID, WAS AT THE HEART OF THE PROPOSED PACKAGE DEAL WHICH IN TURN HAD DIRECT BEARING ON THE BUDGET. HOWEVER, IT NOW SEEMED CLEAR THAT THE HISTADRUT LEADERSHIP WAS UNABLE TO RESTRAIN THE DEMANDS OF THE VARIOUS LABOR GROUPS. HE NOTED THAT INCREASES ALREADY APPROVED, FOR DOCTORS, SOCIAL WORKERS, ETC., WILL COST THE GOVERNMENT NEXT YEAR ABOUT IL 1.25 BILLION, ALTHOUGH THE DRAFT BUDGET HAS SET ASIDE ONLY IL 950 MILLION FOR WAGE INCREASES. IF THE DEMANDS OF OTHER GROUPS OF WORKERS ARE MET, AS NOW EXPECTED, MAJOR ADJUSTMENTS WILL HAVE TO BE MADE IN THE BUDGET. MORE SPECIFICALLY, IF THE WAGE INCREASES EXCEED THE THREE PER CENT REAL INCREASE ASSUMED IN THE BUDGET, VAT WILL HAVE TO BE INCREASED BY TWO PER CENT, AND OTHER TAXES AND FEES INCREASED IF A MAJOR INCREASE IN THE BUDGET CEILING IS TO BE AVOIDED.

2. WHEN QUERIED ABOUT THE INFLATIONARY IMPACT OF THE PROJECTED BUDGET DEFICIT OF IL 5 BILLION (SEE REFTEL), SHIRAN SAID THAT HIS PERSONAL OBJECTIVE HAD BEEN TO RE-
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PAGE 02 TEL AV 08417 151628Z

DUCE THE DEFICIT TO IL 4 BILLION. AN IL 5 BILLION DEFI-

CIT WAS INDEED INFLATIONARY AND WOULD BRING A PRICE RISE OF 28-30 PERCENT, AT A MINIMUM, RATHER THAN THE 23-25 PERCENT PREDICTED IN THE BUDGET PRESENTATION. HE HAD IN FACT HAD IN MIND AN INCREASE OF TWO PERCENT IN VAT DURING THE SECOND HALF OF THE YEAR TO PERMIT THE IL 1 BILLION CUT IN THE DEFICIT. HE NOTED IN THIS REGARD THAT THERE IS AN IL 600 MILLION NET GAIN TO THE BUDGET FOR EVERY INCREASE OF ONE PER CENT IN VAT. HOWEVER, IF WAGES INCREASE AS NOW FEARED, THE RISE IN VAT WILL NOT BE ENOUGH TO COVER THE HIGHER WAGE COSTS TO THE GOVERNMENT LET ALONE PERMIT A REDUCTION IN THE BUDGET DEFICIT.

3. THE BUDGET ASSUMES U.S. ASSISTANCE AT A \$2.2 BILLION LEVEL DURING ISRAELI FY 1977, OF WHICH \$1.47 BILLION IN FMS AND \$730 MILLION IN ECONOMIC ASSISTANCE. HE SAID THAT THE BUDGET ALSO PROJECTS AN IMPROVEMENT IN BOP CURRENT ACCOUNT OF \$100-150 MILLION OVER 1976.

4. WHEN QUERIED ABOUT THE DEFENSE BUDGET, SHIRAN SAID THAT ONLY THE LOCAL EXPENDITURE PORTION WAS STILL TO BE RESOLVED. WITH DEFENSE MINISTER PERES BACK IN ISRAEL, SHIRAN ANTICIPATED EARLY AGREEMENT SINCE THE DIFFERENCE BETWEEN THE FINANCE AND DEFENSE MINISTRIES HAD BEEN NARROWED DOWN TO ONLY IL 500 MILLION.

5. SHIRAN SAID THAT THE EXCHANGE RATE USED FOR CALCULATING THE FOREIGN EXCHANGE COMPONENT OF THE LATEST DRAFT BUDGET WAS IL 9.95 PER U.S. DOLLAR. THIS ASSUMED ONLY 20 PERCENT DEVALUATION DURING THE BUDGET YEAR, COMPARED TO 25 PERCENT IN THE ORIGINAL BUDGET (NOTE: THE EXCHANGE RATE USED IN THE ORIGINAL DRAFT WAS IL 10.65).

6. WHEN ASKED WHETHER A SUPPLEMENTAL BUDGET COULD BE AVOIDED DURING THE CURRENT BUDGET YEAR, SHIRAN REPLIED THAT HE WAS VERY HOPEFUL IN THIS REGARD, IF HE IS SUCCESSFUL, IT WILL BE THE FIRST TIME SINCE 1965 THAT SUPPLEMENTALS HAD NOT BEEN ADDED TO THE ORIGINAL BUDGET.

7. IN CONCLUSION, SHIRAN SAID THAT THE CURRENT DELI-
CONFIDENTIAL

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PAGE 03 TEL AV 08417 151628Z

BERATIONS WOULD HAVE TO BE CONCLUDED IN ANY EVENT WITHIN THE NEXT WEEK OR TEN DAYS SO THAT THE BUDGET COULD BE PUT IN FINAL FORM FOR PRESENTATION TO THE KNESSET ON JANUARY 17. HE DID NOT ANTICIPATE THAT ANOTHER CABINET SESSION WOULD BE CALLED TO DISCUSS THE BUDGET.

8. COMMENT: SHIRAN HAS GOTTEN INTO HOT WATER WITH HIS SUPERIORS BY PUBLICLY CRITICIZING THE RECENT CAVE-INS

TO WAGE DEMANDS. ON DECEMBER 14 HE WAS QUOTED IN THE PRESS AS SAYING "GOI ECONOMIC POLICY WILL COLLAPSE IF THERE IS FURTHER EROSION OF THE WAGE STRUCTURE". THE FOLLOWING DAY FINANCE MINISTER RABINOWITZ REPORTEDLY ISSUED AN INSTRUCTION FORBIDDING ANY FURTHER PRESS INTERVIEWS BY MINISTRY OF FINANCE OFFICIALS WITHOUT THE EXPRESS PERMISSION OF THE MINISTER OR DIRECTOR GENERAL. TOON

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